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SUBJECT: HUNGARY: MALEV'S ACTING CEO REVEALS ITS TRUE OWNERSHIP

Classified By: A/DCM Michael Hurley, reasons 1.4 (b and d)

11. (C) SUMMARY. In a meeting with Ambassador Foley on February 18, Malev Hungarian Airlines, acting Chief Executive Officer (CEO), Mr. Geza Fehervary, provided details on the company,s current financial situation. Pulling aside the veil of the current state-of-play with Malev,s Russian financial backers, Fehervary,s comments beg the question as to who really owns Malev, potentially impacting the company,s EU flight rights. End summary.

BACKGROUND

12. (SBU) The Hungarian government privatized its national airline, Malev, in 2007. One of the buyers was Russian businessman Boris Abramovich, who, through his Air Bridge company, purchased 49 percent of Malev. Two Hungarian individuals purchased 51 percent of the Malev shares, allowing Malev to continue operation in accordance with the EU framework, which requires European majority ownership.

13. (C) Air Bridge, already in receipt of significant loans from Moscow-based Vneshekonombank (VEB), ran into financial difficulties due to other Abramovich investments. VEB called in its loans to Air Bridge at a Malev shareholders meeting the week of February 9 and removed Air Bridge owners and managers from Malev, giving VEB 49 percent ownership of Malev.

14. (C) The purchase of the remaining 51 percent of Malev's shares by two private Hungarians was also 100 percent financed with VEB loans according to Fehervary. He explained that, &there is no way private individuals could pay that kind of money.8 Noting that these individuals have strong government connections, Fehervary said that the two brought nothing to the table but their Hungarian citizenship. In essence, VEB controls 100 percent of Malev shares. Vladimir Putin is the chairman of the supervisory board of VEB.

RUSSIAN BANK) RUSSIAN OWNER?

14. (S) In his meeting with the Ambassador, Fehervary said that VEB pressed the Hungarian Government - by withholding further credit and forcing Malev to live on its current cash flow - to search for other individuals or a Hungarian company to buy the 51 percent share ostensibly owned by the two private Hungarian citizens.

15. (C) Fehervary said that the GOH and VEB have reached an agreement that will be made public shortly. After making the announcement, VEB will extend the necessary lines of credit

which, by the end of March, will enable Malev to pay \$4 million in back payments to the U.S. company, International Lease Finance Corporation (ILFC), owned by AIG, to cover its lease payments for 19 Boeing aircraft. The agreement will identify two new Hungarian owners who are well-connected to the Hungarian government to satisfy the European ownership requirements.

16. (S) Comment. The Malev situation is of particular interest for two reasons. First, Malev's crushing debt and inability to raise credit creates the potential for a negative financial impact on significant American exposure in the company through loans and leasing arrangements. Second, questions surrounding the true ownership of the current Hungarian company, as well as the anticipated new Hungarian company, raise concerns as to the continuing influence of the Russian government across a broad spectrum of Hungarian political and economic activities. Among these would be Malev's ability to operate as an airline with the privileges afforded to EU member states.
Foley